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Testimony

U.S. Department of Agriculture • Office of Governmental and Public Affairs

Statement by John R. Block, secretary of agriculture, before the Senate Finance Committee, Dec. 12.

Mr. Chairman, I welcome this opportunity to discuss developments in U.S. agricultural trade relations with the European Community.

Because the EC is at the same time U.S. agriculture's largest market and its leading competitor in world trade, the course of EC agriculture is of prime importance to us.

My purpose today is to report on the agricultural aspects of the ministerial meeting held in Brussels Friday to discuss bilateral trade issues between the United States and the EC.

Secretaries Shultz, Regan and Baldrige, Ambassador Brock and I met for about three hours with EC Commission President Thorn, Agriculture Commissioner Dalsager and other EC ministers.

This was the third of these meetings, which date back to December 1981. In the intervening period, we have held at least a dozen meetings at both working group and policy levels to address issues in agriculture.

Throughout these meetings, the United States has emphasized four basic principles for the conduct of agricultural trade:

1. No country should expect third countries to pay the costs of its internal agricultural policies.
2. Despite temporary problems that might ensue, the only sound, long-term solutions to the problems of agriculture lie in lowering barriers to trade, not raising them.
3. Export subsidies deny the full benefits of agricultural trade, which serves both producers and consumers best under the principle of comparative advantage.
4. The trade policies of developed countries must not impede the economic growth of developing countries.

Within that context, we have expressed our concerns at the community's use of export subsidies and its proposals to tax consumption of fats and oils other than butter and to restrict imports of nongrain feed ingredients, including corn gluten feed and citrus pellets.

These are important export items for a number of developing countries as well as for the United States, and restricted market access and trying to sell against subsidized competition can only aggravate their already serious financial problems.

I should note parenthetically for the committee that developing countries represent the greatest growth potential for U.S. agriculture, accounting for about 40 percent of U.S. farm exports last fiscal year.

These issues, and many more, were covered in detail in a series of consultations between January and June of this year. Predictably, the primary decision to come out of these meetings was to continue to talk.

What was not so predictable, was that soon after these consultations, the EC Commission, as part of its effort to reform the Common Agricultural Policy, resurrected two proposals that we had made clear time and again were totally unacceptable to us. Those are the fats and oils tax and the restrictions on imports of nongrain feed ingredients.

These two proposals would impair export trade worth almost \$5 billion to the United States last year. This trade represents close to 60 percent of our agricultural exports to the EC.

We can only applaud the EC's stated intention to align community agricultural prices with world prices by reforming the CAP.

We are pleased to see in the reform plan a growing recognition that all countries have an obligation not to let their policies aggravate already unstable world market conditions.

But we fail to see how broadening the EC's protective insulation from import competition, as these two proposals would do, will effect a closer alignment of EC prices with world prices. Nor can we see how these imports are the cause of the EC's budget problems.

And we find no real economic justification for these restrictions or other measures that would affect U.S. agricultural trade. In fact, an informal joint U.S.-EC working group reviewed the nongrain feed ingredient proposal as it relates to corn gluten, and found no economic reason to restrict imports of this product.

The community's use of export subsidies to move its surpluses onto the world market has been of continuing and increasing concern to U.S. agriculture, and it has been at the forefront of our discussions with the EC since before the first ministerial in 1981.

EC subsidized inroads into U.S. markets have led us to take counter measures under certain conditions, but we have exercised monumental restraint in our use of these measures to encourage similar restraint by the EC.

The EC response has been to complain to the GATT and to embark on further export subsidy adventures, the most recent being an extra subsidy on wheat flour sales to Egypt.

That is the background as we went into the meeting in Brussels Friday: two years of talking, continuing and expanded EC use of export subsidies, and new proposals to restrict a market for U.S. agricultural products that is valued at close to \$5 billion.

In the spirit of the agreement reached at the Williamsburg Summit, we proposed as the first step toward restoring order in trade that the United States and the Community make a joint commitment: (1) to avoid new protectionist and other trade measures affecting agricultural imports; and (2) to make a much stronger effort to solve our mutual agricultural problems using every means at our disposal.

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Statement by Donald L. Houston, administrator, Food Safety and Inspection Service, U.S. Department of Agriculture, before the Subcommittee on Livestock, Dairy and Poultry, Committee on Agriculture, United States House of Representatives, Denver, Colo., Dec. 14.

Hearing on Cattle King Packing Co. of Denver, Colo.

Mr. Chairman. Thank you for the opportunity to be here today to discuss recent allegations concerning the Cattle King Packing Company. Those allegations arose amid publicity about operating practices at Cattle King, including charges that Cattle King management was diverting unwholesome meat into the food supply and operating the facility under substandard conditions. We are, of course, concerned whenever any allegations surface about criminal activity at a federally inspected plant. In this case, we are doubly concerned because the plant

has been a major supplier of ground beef purchased by USDA for the school lunch program.

Because of the seriousness of the allegations, USDA took actions on several fronts. On Sept. 20, Secretary Block ordered an immediate halt to the distribution of all ground beef processed for the school lunch program by Cattle King and by Nebraska Beef Processors of Gering, Neb., which is operated by the owner of Cattle King. On the same day, USDA's Inspector General launched an intensive criminal investigation into the matter in cooperation with the Justice Department.

In addition, on Sept. 21, USDA temporarily suspended Cattle King and Nebraska Beef Processors from bidding in the federal procurement program. Cattle King contested the suspension action by asking a federal district court to issue a temporary restraining order against USDA. The court denied the request, but did order USDA to hold an expedited administrative hearing on the matter. That hearing was conducted Dec. 6, and a decision is expected by Dec. 20. Meanwhile, both companies remain suspended.

On Nov. 30, USDA's Food and Nutrition Service announced that it would supply beef to the school lunch program to replace the impounded meat. In another action, on Dec. 2, USDA's Food Safety and Inspection Service issued a complaint to withdraw inspection from Cattle King, Stanko Packing Company of Gering, Neb., (which also does business as Nebraska Beef Processors) and Nebraska Beef Packers of Gordon, Neb. This action was based on evidence developed during the USDA investigation that Cattle King had illegally processed and distributed adulterated meat products by processing cattle that had died other than by slaughter.

Although I am not at liberty to give further details today, I would like to say this, Mr. Chairman: USDA personnel cannot be in all places at all times to monitor activities in inspected establishments or in the meat business generally. If an individual is criminally minded and is determined to violate the law, that person can find a way to do so. To a large extent, we rely on the integrity of business in both the inspection and procurement programs. On the other side of the coin, however, we conduct a strong enforcement program to detect criminal violations, and we also rely on the threat of detection as a deterrent to those who might feel inclined to break the law. When we find wanton disregard for

the law, our ultimate goal is to remove the guilty persons from any connection with inspected establishments.

Unfortunately, our experiences in recent years have clearly indicated weaknesses in the enforcement tools at our disposal. Thus, on Dec. 9 Deputy Secretary Lyng announced new measures that USDA has proposed to strengthen both the inspection and procurement programs. Later in this statement I will discuss these proposals at length. For the moment, however, I know that the committee is particularly interested in the history of the Cattle King Packing Company and how the plant became a participant in the school lunch program. The following discussion will shed light on this question as well as on USDA's current authority to withdraw inspection from Stanko-affiliated plants.

History of Stanko-Affiliated Plants

Cattle King, Establishment 23, is a federally inspected plant owned and managed by Rudolph G. "Butch" Stanko, Jr. Henry Stanko, Jr.—Butch's cousin—is listed on the current application for inspection as administrator of the establishment. It is a relatively new business, established in 1981. However, Cattle King is only one of several plants with which Stanko family members have been affiliated.

Although the overwhelming majority of the meat and poultry industry are responsible and law abiding, there is a small number in the industry that cannot or will not consistently operate within acceptable bounds. In recent years, the government has prosecuted two cases involving Stanko-affiliated plants. The first case was brought against Nebraska Beef Packers, Inc. of Gordon, Neb. The action grew out of an incident that occurred in January 1977, when the company allegedly shipped about 38,000 pounds of off-condition—partially putrid—boneless beef to a Kansas wholesale company and then allegedly resold it to a Chicago broker after the Kansas firm returned it because of its condition. In 1978, the company pleaded guilty to one count of transporting adulterated meat in interstate commerce—a felony under the Federal Meat Inspection law—and was fined \$1,000.

Rudolph R. Stanko, Sr. is the president of Nebraska Beef Packers in Gordon. Butch Stanko and Henry Stanko, Jr. are also listed on a May 1975 application for inspection as officers of Nebraska Beef Packers. In 1977—when the Kansas incident occurred—Butch Stanko was still

affiliated with the firm. In the 1970's, the Stankos formed two other inspected establishments—Stanko Packing Company of Gering, Neb., and Glasgow Packing Company of Glasgow, Mont.

At time of the 1978 conviction of Nebraska Beef Packers, USDA had already begun an investigation of other Stanko plants—an investigation that eventually spread to Nebraska Beef Packers as well as the two other inspected establishments. The investigation centered on a series of incidents dating from January 1975 to January 1980. As a result of the investigation, in October 1980, a 13-count indictment was returned against the three inspected establishments, two other Stanko-affiliated companies and Butch and Henry Stanko themselves.

On Aug. 31, 1981, after plea bargaining, Stanko Packing and Glasgow Packing pleaded guilty to the first count of the 13-count indictment. This count—which is a felony under federal law—charged that the defendants conspired to commit numerous separate crimes under the FMIA and conspired to violate the mail fraud provisions of Title 18 of the United States Code. Among other things, the indictment charged that the defendants conspired to transport meat products that had been returned by customers to cold storage warehouses in Gering, Neb., and Glasgow, Mont., for further processing under unsanitary conditions and without federal inspection; conspired to sell the reworked meat to their customers and to the U.S. government; conspired to ship the meat in trucks between two of the establishments with items such as furniture and cattle hides, without authorization; and conspired to relabel cartons of boneless beef as buffalo and to sell and transport the misbranded beef to unsuspecting customers, who had ordered buffalo meat, which costs substantially more than beef. The indictment also charged that the defendants conspired to form a company, Carillo and Company, for offering bids in the national school lunch program. Butch and Henry Stanko, Jr. pleaded guilty to count II of the indictment—removing without authorization from the secretary of agriculture the official mark of inspection from boxes of boneless beef. This count was a felony in the original indictment but was reduced to a misdemeanor during plea bargaining. All other charges were dropped, including charges against the other defendants.

As a result of the convictions, Stanko Packing and Glasgow Packing were fined \$10,000 each plus court costs. Butch and Henry Stanko, Jr.,

were fined \$1,000 each, given 6-months' suspended sentences, and placed on 4-years' probation, which runs until Oct. 5, 1985. As a special condition of each probation, the Stankos were to enter into cooperative agreements with the Immigration and Naturalization Service to avoid hiring illegal aliens in their businesses. Another condition of each probation was that neither would take any "action or cause any action to be taken in the operation of any packing plant facility of which he has control or in which he has an interest" that would violate the FMIA.

USDA Reaction to the Stanko Cases

The investigations of the Stanko firms affected two major USDA programs: the procurement program, which today is administered by the Agricultural Marketing Service, and the inspection program, which is conducted by the Food Safety and Inspection Service.

USDA purchases ground beef for the school lunch and other domestic feeding programs on a formally advertised, competitive basis of bidding. Contract awards go to the lowest bidders that are determined to be responsive and responsible to the program requirements. Responsibility is determined by confirming, among other things, that the bidder operates a meat plant under federal inspection and that the firm is not on a government-wide suspension or debarment list and has the capability of producing the product. Purchases are usually made weekly between July and February to coincide with the needs of schools.

The federal procurement regulations govern procedures for suspending or debaring firms from participating in procurement programs. Under the regulations, USDA may debar a firm or individual for various causes, including conviction of any offense "indicating a lack of business integrity or business honesty which seriously and directly affects" their responsibility as a government contractor. When the government determines that immediate action is necessary to protect government interests, it may suspend a firm or individual on the basis of adequate evidence pending completion of an investigation, legal proceeding, or debarment action. Suspension and debarment are not intended as punitive measures but are meant only to ensure that government contracts are awarded to responsible firms. Debarment and

suspension exclude a contractor from participating in contracts throughout the executive branch of the government.

The procurement regulations also provide contractors an opportunity to oppose suspension or proposed debarment. In addition, the regulations state that, generally, debarment should not exceed three years and that the time a contractor is suspended should be considered in determining the debarment period. Debarment may be extended to protect the government's interest, but may not be extended solely on the basis of the facts and circumstances upon which the initial debarment action was based.

The Stanko Packing Company—which also does business as Nebraska Beef Processors of Gering, Neb.—first entered USDA's school lunch program in September 1974. That company and other companies operated by Butch Stanko have participated in the program since that time, except for periods of suspension or debarment.

In the first case I discussed today, because of its felony conviction, Nebraska Beef Packers of Gordon, Neb. was debarred from participating in the federal procurement program for one year beginning Dec. 29, 1978. As the investigation of the second case involving Glasgow Packing Company of Glasgow, Mont., and Stanko Packing Company of Gering, Neb., plus Nebraska Beef Packers developed, USDA began taking action against the companies and individuals implicated. In November 1979 it suspended the Glasgow Packing Company from participation in the procurement program, based on evidence developed during the investigation. In January 1980, the suspension was extended to the Stanko Packing Company of Gering, Neb.

After the indictment in the second case was issued in October 1980, Butch and Henry Stanko, Jr., and Nebraska Beef Packers of Gordon were also suspended from participating in the procurement program because they had been charged in the indictments. Shortly after the indictment, however, USDA was informed that the charges against Nebraska Beef Packers had been dismissed, and the second suspension of that firm was lifted.

In April 1981—while still under indictment—Butch Stanko formed the Cattle King Packing Company. Butch Stanko was listed on a July 1981 application for inspection as president of the company, and Henry Stanko, Jr., was listed as plant manager. In July, Cattle King submitted

a bid on the USDA ground beef purchasing program. USDA ruled the bid was ineligible because the suspension of Butch and Henry Stanko applied to any firm with which they were affiliated. The suspension was officially extended to Cattle King July 29, 1981.

After the convictions of Glasgow and Stanko Packing and Butch and Henry Stanko in October 1981, USDA imposed a 25-month debarment on the Glasgow, Stanko and Cattle King Packing companies as well as on Butch and Henry Stanko, Jr. However, the suspension period which commenced in 1979 with Glasgow was credited to all parties. Thus, the 25-month debarment expired Dec. 1, 1981—about two months after the conviction. The decision to count the suspension period toward the debarment period was based on a precedent established by the USDA Board of Contract Appeals in an earlier unrelated case.

The combined suspension and debarment periods served by the firms owned and operated by the Stanko cousins extended from November 1979 to December 1981. Cattle King entered the procurement program in December 1981, and Stanko Packing—doing business as Nebraska Beef Processors of Gering, Neb.—reentered the program in January 1982.

On the inspection side of the question, section 401 of the FMIA (21 U.S.C. 671) provides that if an applicant for or recipient of meat inspection services, or anyone responsibly connected with the applicant or recipient, is convicted of any felony or two or more misdemeanors involving the acquiring, handling or distributing of unwholesome, mislabeled or deceptively packaged food or upon fraud in connection with transactions in food, USDA may begin administrative procedures to withdraw inspection from the firm or may refuse to provide inspection to the firm. If, after the opportunity for a hearing, the secretary of agriculture determines that an applicant or recipient is unfit to engage in any business requiring federal meat inspection service, the secretary may withdraw or refuse to provide service to the applicant or recipient. If an individual responsibly connected with a firm is convicted of any felony or two misdemeanors involving food, USDA may not only withdraw inspection from the establishment with which the individual is connected, but also may refuse to provide inspection to any other establishment with which the person is responsibly connected.

After the second conviction, USDA began administrative action to withdraw inspection, and in October 1982 an administrative law judge issued consent decisions in both cases. In the Nebraska Beef Packing case, a two-year withdrawal of inspection was imposed but held in abeyance. In the second case, a two-year withdrawal of inspection was imposed on Stanko Packing Company, with all but 30 days of the withdrawal held in abeyance. Glasgow Packing had gone out of business by the time of the consent order. Both Nebraska Beef Packing and Stanko Packing were placed on three years' probation, which runs from Oct. 1, 1982, until Oct. 1, 1985.

The consent decisions provided for the withdrawal orders to be instituted against Nebraska Beef Packing, Stanko Packing, and its officers, directors, partners, affiliates and successors, if, during the probationary period, the firms, or any of their officers, partners, employees or agents or affiliates, or any establishment served or controlled in any manner by Butch and Henry Stanko, Jr., violates any section of the FMIA. Because the consent orders also encompassed actions by affiliated firms, they gave USDA the authority to issue its Dec. 2 complaint to withdraw inspection from Nebraska Beef Packers, Stanko Packing and Cattle King, based on the alleged violations at the Cattle King plant. The firms have 20 days in which to answer the complaint. We fully expect them to contest the matter and request a hearing which will probably result in protracted administrative and judicial proceedings. During this time, plant operations may continue.

Conditions at Cattle King

Since the Cattle King plant opened in 1981, I think it is safe to say the establishment has not been a model plant. On the positive side, the plant facilities are old, and the Stankos have upgraded the facilities since they began operations there. However, USDA has had serious problems in getting the plant to maintain an acceptable level of daily sanitation.

Generally, establishments willingly assume responsibility for maintaining good sanitation and need little prodding from USDA inspectors. Cattle King does not fit into that category of plants. Instead, inspectors must assume the initiative of pointing out sanitation deficiencies and having the deficiencies corrected on a daily basis.

Inspectors, in effect, serve as the plant's quality control officers for sanitation. Although this type of plant may cooperate when asked to correct deficiencies, the situation places an inordinate burden on inspectors. It is much more difficult for USDA to achieve compliance at this type of establishment than at others where the management assumes responsibility for maintaining good sanitation.

The sanitation problems at Cattle King have stemmed from management's attitude and a high turnover of plant employees—both production workers and supervisors. This turnover had added to the burden of inspectors, because inspectors have had not only to assume responsibility for sanitation but also to be concerned with maintaining acceptable work habits among plant employees. Depending on the attitude and strength of inspectors, assignment to plants such as Cattle King can lead to a serious decline in inspector morale. To a large extent, I believe that this is what occurred in this case.

As a supplier to the school lunch program, Cattle King, as well as Nebraska Beef Processors, was subject to review by the Agricultural Marketing Service. When ground beef was being prepared at the plant for the school lunch program, six AMS meat graders were assigned to the plant to certify that the product met government contract specifications. The graders examined the beef before boning, checked the boneless beef for compliance with contract specifications, controlled the product formulation and supervised the packaging and patty operations. AMS also analyzes every production lot for fat content. The overall AMS rejection rate of finished product from Cattle King was comparable to rejection rates of other large-volume contract producers.

Because Cattle King is a federally inspected plant, it was also under continuous supervision by three to four meat inspectors and a veterinary medical officer from USDA's Food Safety and Inspection Service. These inspectors conduct antemortem, postmortem, and processing inspection. Every federally inspected plant is also under the supervisory control of FSIS. As part of the supervisory process, the FSIS circuit supervisor with responsibility for Cattle King visited the plant at least once a month. As part of the inspection process, FSIS also routinely conducts tests of product to detect illegal drug and chemical

residues, species substitutions, conformity to USDA standards of composition and microbiological contamination.

Despite all these safeguards, we now have evidence that Cattle King took covert steps to circumvent the inspection process. That evidence is the basis for our actions to withdraw inspection from the Stanko-owned firms.

The ground beef that has been held off the market totals about 19 million pounds. A screening program has been put in place to test for chemical residues, species, extenders, preservatives, extraneous materials and spoilage. USDA has made no decision regarding the disposition of this product pending the completion of the testing program and the criminal investigation. In the meantime, USDA is taking steps to maintain the availability of ground beef to local school districts. Ground beef is the most popular commodity in the school lunch program, and we intend to see that schools receive all the product to which they are entitled.

Changes in Direction

The U.S. Department of Agriculture has a long, proud tradition of public service and consumer protection. Consumer confidence in our food supply is high. However, doubts have recently been raised about the safety of meat and poultry products. Some critics have questioned USDA's motives in instituting new inspection procedures. At the same time, publicity from the media and public interest groups has focused on questionable practices in that small segment of the meat and poultry industry that runs marginal operations.

USDA strongly believes that steps must be taken to maintain consumer confidence in the nation's meat and poultry supply. USDA must deal more swiftly and effectively with that small segment of the meat and poultry industry choosing to conduct business in a way that may not always be in compliance with our food safety laws. Defending that small percentage of plant operators whose actions erode consumer confidence serves neither the interests of USDA nor those of the meat and poultry industry in general. In addition, the time has arrived for an independent, unbiased assessment of the current inspection program and of steps USDA is taking to modernize the system.

To address these issues, USDA is taking five distinct steps that will enable USDA to take swift, decisive action to confront problems in plants identified as chronic violators of basic sanitation and other inspection requirements. As part of this program, USDA has contracted for an independent review of the inspection system and has tightened eligibility requirements for entry into the meat and poultry procurement program. These actions will strengthen consumer protection and provide for a more rational use of inspection resources. I want to discuss the five steps today. First, an overview of the measures:

1. More intensive regulation of plants with a poor history of compliance or which are marginal in their operating practices.
2. Tightened eligibility requirements for plants desiring to sell meat and poultry products to the federal government.
3. Drafting of a legislative package to expand the secretary's authority to withdraw inspection from meat and poultry plants and shut down operations.
4. Improved coordination with the Department of Justice to ensure active pursuit of criminal prosecutions and sanctions for food safety offenses.
5. A thorough review of the effectiveness of existing and proposed inspection approaches, to be conducted by the National Academy of Sciences, under contract with USDA.

The meat and poultry industry is, as a whole, responsible, properly managed and concerned about complying with USDA requirements. USDA has learned over the years, however, that a small percentage—about 5 percent—of packers cannot or will not consistently operate within acceptable bounds. This minority accounts for much adverse publicity from groups inside and outside government, bringing the entire industry under a cloud of suspicion and raising questions about the effectiveness of government regulation.

Traditionally USDA has tended to apply inspection and other resources uniformly throughout the industry, with the result that plants have frequently been treated equally in terms of staffing, supervision and regulatory controls. This policy has placed constraints on efforts to intensify scrutiny and regulatory efforts of known problems.

In fact, we know that there is an identifiable group of problem plants and individuals in the meat and poultry industry and that

traditional approaches do not work well in this group. This type of plant can be in one or more of the following categories:

- the plant itself is old, congested, poorly constructed or maintained, and the packer cannot afford to or refuses to upgrade facilities.

- the plant management is engaged in: (1) intentional criminal activity, including economic fraud and the sale of diseased, contaminated or spoiled meat; (2) relationships with inspection personnel that are hostile, aggressive, belligerent and sometimes violent, designed to harass and compromise inspectors and their supervisors; or (3) benign neglect, which requires the inspector to serve as chief plant sanitarian and production foreman.

Compounding the problem is a recent string of incidents that point to a rise in criminal activity. In this connection, I am not talking about minor infractions or even serious mislabeling violations, which are forms of economic fraud but do not endanger the public health. I am talking about serious violations that reflect a total disdain for the public well-being and a wanton disregard for the law. For example:

- In 1979, a New Jersey processing firm was convicted of preparing and offering for sale pork sausage that it had adulterated with imidazole to make it look fresh. Imidazole is a chemical that can mask the normal discoloration of aging and spoiling meat. Imidazole has never been approved for use in food. Administrative proceedings in this case are not yet completed.

- In 1980, a Kentucky retailer was convicted of preparing and offering for sale ground beef adulterated with sodium sulfite, a substance that also masks the decomposition of meat.

- In 1981, a Georgia slaughterer was convicted of slaughtering diseased cattle without federal inspection. The animals were suffering from malignancies.

- In 1981, an Australian firm substituted uninspected horsemeat and kangaroo meat for boneless beef in shipments exported to the United States.

- In 1981, an Ohio slaughterer was convicted of conspiracy and related charges involving an elaborate after-hours scheme to slaughter 4-D—dead, diseased, disabled or dying—animals. The firm obtained USDA brands from a locked box and regularly used a pattern of

harassment and diversion of inspectors to allow the plant to mingle the illicit products with inspected and passed products.

— In a similar case, a New York packer was convicted in July 1983 of one felony after he admitted, in plea bargaining, that he used diversionary tactics to harass, confuse and frustrate inspectors, so they would not detect his practices of slaughtering down or diseased animals. The packer had been a source of almost continuous complaints and challenges to local, area, regional and headquarters officials over a 3-1/2 year period.

— A California processing plant was convicted in 1982 of processing and selling putrid sausage with added water with intent to defraud. The company used manipulated scales and an elaborate scheme, including walkie talkies, to warn its employees of the approach of inspectors.

— An Arkansas slaughter operation was convicted in 1982 of preparing carcasses without inspection and using a false marking device. This firm was slaughtering after hours. There were indications that illegal practices continued after the criminal charges were brought.

— In 1983, a Pennsylvania slaughterer was convicted of conspiracy to violate the FMIA, slaughtering and preparing cancer-eyed cattle without federal inspection, transporting and selling uninspected meat and the unauthorized use of a USDA meat brand.

— A New Jersey slaughterer was convicted in 1983 of failure to destroy condemned carcasses and the preparation of meat for use as human food from condemned materials.

Serious violations such as these have consumed an enormous amount of FSIS resources in investigating the violations, locating, detaining and testing suspect product and developing a legal basis for prosecution. As a consequence, FSIS enforcement personnel have spent time on such cases that they would otherwise have spent on conducting regular compliance reviews. Reflecting this shift in resources is the fact that from fiscal 1981 through fiscal 1983 the number of compliance reviews dropped from 44,283 to 39,909, or about 10 percent. Despite this decline, the number of violations detected during the reviews rose dramatically, from 502 to 674, or about 33 percent.

All too often one or more years pass between the first indications of criminal activities, conviction and withdrawal of inspection. In some instances, the penalties levied after conviction—fines of several

thousand dollars and probation—represented a minor nuisance compared to the profits that accrue from illegal schemes.

At the opposite end of the spectrum, in recent years USDA has recognized plants that for various reasons operate at high levels of compliance with little or no need for inspection pressure or scrutiny. We have determined that we can reduce the regulatory intensity in these plants without compromising our mission. In fact this is the philosophy behind USDA's legislative proposal to give the secretary discretionary authority to determine the level of inspection required for meat and poultry processing plants. It is time to extend this philosophy and recognize that there are also plants that do not willingly comply with the law. This recognition would permit us to consider a number of approaches to improve overall compliance with USDA requirements. USDA believes that a tougher regulatory stance would be welcomed by the Congress, the public, responsible members of the regulated industry, as well as by inspectors and FSIS officials who have been frustrated by years of dealing with repeated violations or problems from the same sources.

Enhancing the Use of Existing Authority

USDA will continue to work with Congress in an attempt to gain more discretionary authority to make shifts in inspection resources based on a plant's proven ability to meet established guidelines in producing a safe and wholesome product. However, even under current authority, resources could be used in a more systematic fashion, and greater attention could be focused on known problems.

In attempting to use existing resources more wisely, USDA will be tailoring inspection to specific problems in a particular plant. Attention will be focused on plant management's disregard for health and safety standards, rather than minor infractions of facility requirements. Small plants will be given the same special considerations they now receive.

In carrying out this program, we will be identifying plants through institutional experience and documentation that have clearly established records of repeated noncompliance. We will place such plants into a category requiring special oversight, including, where necessary, additional laboratory testing, assignment of additional inspectors, special

training for inspectors, closer supervision, and the broader use of court injunctions.

In adopting this systematic plan for increasing regulatory intensity where it is needed, USDA believes it can eventually shift the entire spectrum of industry compliance upwards. Low-end operations will either improve or be forced to curtail operations.

Strengthening Federal Procurement of Meat Products

As I indicated earlier, the products purchased by USDA for use in the school lunch and other domestic feeding programs must undergo two reviews: inspection for wholesomeness by the Food Safety and Inspection Service and certification by the Agricultural Marketing Service that meet detailed specifications, including requirements for freshness and quality. Even with this dual review program, USDA's meat and poultry procurement program can be strengthened to ensure the safety and quality of the food purchased. Therefore, USDA is considering a number of actions to increase the safeguards in this program.

The first action under consideration is the tightening of requirements for eligibility to bid on federal meat and poultry procurement contracts to ensure that all bidders are capable of producing satisfactory product. In addition, the final product will be subject to increased testing both at origin and destination to ensure it is in compliance with specification requirements.

As a further safeguard against unacceptable practices, AMS meat graders will be given increased authority to take action when the wholesomeness of a product or the sanitation of a plant is questioned, if an inspector is not available. Product may be retained or operations suspended until reviewed by an inspector and any needed corrective action is taken.

Legislative Proposal to Increase Withdrawal Authority

USDA has a number of legal authorities to deal with violations of the inspection laws, including actions against firms and individuals—prosecutions for felonies and misdemeanors—and actions against products—retentions, condemnations and judicial seizures. USDA may

also seek civil injunctions to restrain certain kinds of repeated violations of the laws.

USDA officials have long recognized that withdrawal of inspection, which basically precludes a plant from operating, is the most effective sanction that can be imposed. It serves as a strong deterrent because it is the only penalty that dwarfs the enormous profits that can be reaped from illegal activities.

The authorizations for withdrawing inspection are very limited, however. They include withdrawal if a plant does not destroy any condemned carcass, meat or meat product; if the plant fails to maintain sanitary conditions, resulting in adulteration of any carcass, meat or meat product; or if the company or responsibly connected officials are convicted of a felony or two or more misdemeanors, as discussed above. In addition, if an inspector has been threatened with possible assault, or has been possibly assaulted, intimidated or interfered with, in or on account of the performance of his or her duties, by an operator of a plant or any of his or her employees or agents, inspection may be temporarily suspended until the safety of the inspector is ensured.

These authorities are far too limited to be effective. A packer who chooses to slaughter condemnable animals or rework spoiled products will not likely present them for inspection. The second authority can be circumvented by a packer who merely has to clean up conditions cited in the complaint, thereby forcing dismissal of any action. The third authority is most often invoked; however, legal maneuvering may delay a withdrawal for years, while a plant continues to operate.

To take swift and decisive action, USDA needs increased authority to withdraw inspection. USDA is preparing legislation, subject to OMB and other normal reviews, that would give USDA:

- Authorization to initiate withdrawal proceedings based on a pattern of repetitive infractions and substandard practices.

These practices could include repeated sanitation violations; product contamination or economic adulteration; or harassing, impeding, or resisting inspection officials. This administrative action would not depend upon any action taken as a result of a criminal investigation, such as a criminal prosecution.

- Authorization to withdraw inspection service summarily, before an administrative hearing, if a plant or an individual responsibly

connected to a plant has been convicted of a major infraction of the law. Currently, these administrative hearings can delay withdrawal until years after conviction for a serious offense.

USDA will work with Congress to ensure quick passage of this legislation. Stronger withdrawal authorities are necessary if USDA is to act effectively to stop known violators from continuing to operate.

Increased Liaison with the Department of Justice

The decision of whether or not to proceed with prosecution under the laws of the meat and poultry inspection program or whether to enter into a plea-bargaining arrangement rests solely with the U.S. Attorney's office.

Over the last decade, USDA officials have worked more closely with Justice Department attorneys to explain agency priorities and to assist in the prosecution of certain cases. USDA believes these cooperative efforts must be continued. USDA will improve liaison and cooperation with the Department of Justice to ensure that prosecutions of serious meat and poultry violations are actively pursued and that USDA's administrative remedies are not weakened by legal compromises.

NAS Study of Inspection Modernization

Although the mandate of the meat and poultry inspection service has not changed over the decades, the regulated industry and the scientific environment have changed drastically. Advances in animal health have resulted in a general reduction in disease incidence in animals brought to slaughter, while industry is taking advantage of improved technology, producing more product under better control.

As I know you are aware, Mr. Chairman, such advances have enabled USDA to begin its own modernization program. Because the use of inspection procedures designed to meet the needs of an earlier time no longer was appropriate, USDA began a program to develop new, more efficient inspection techniques. Whenever new inspection methods proved to be at least as effective as traditional techniques after thorough testing, they were implemented in federally inspected plants. The modernization program has been continuing for several years and

has succeeded in holding down costs without detracting from the effectiveness of inspection.

The modernization program has been sharply criticized by some who see the USDA as not following its mandate. Every new procedure that has been implemented has been fully tested, yet critics see USDA's interest in efficiency as undermining consumer protection in an attempt to improve government and industry productivity. USDA believes the time has come for an independent outside assessment of its modernization program. The program must be closely scrutinized by an outside body respected for objectivity if the public is to continue to believe that the procedures followed by USDA inspectors are effective in protecting consumers from unwholesome meat and poultry products.

That is why USDA announced on Nov. 25 that it has contracted with the National Research Council of the National Academy of Sciences for a complete review of inspection procedures. NAS will focus on the scientific adequacy of traditional, new, and proposed inspection approaches and will have total control over the findings of the study.

Mr. Chairman, this concludes my statement. As I stated at the beginning of my testimony, USDA recognizes that there are problems that must be addressed. When the safety of the meat and poultry supply of this nation is called into question, we are all affected, whether we are in government or the regulated industry, or are affected solely as consumers. USDA is determined to strengthen the inspection and procurement programs, and it is determined to move swiftly against those individuals and firms who refuse to obey the law. To do this, however, we need the support of the Congress, the American public and the regulated industry. We hope we receive that support.

Thank you, Mr. Chairman.

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News Releases

U.S. Department of Agriculture • Office of Governmental and Public Affairs

FIRM RECALLS CANNED SPAGHETTI AND MEATBALLS

WASHINGTON, Dec. 9—Venice Maid Inc., Vineland, N.J., is recalling 6-pound, 8-ounce cans of Venice Maid Spaghetti and Meatballs with Sauce in the Chicago, Ill., area after the U.S. Department of Agriculture found food spoilage organisms in the product distributed there.

Eighty-six suspect cans have been distributed in Rolling Meadows, Ill., Calumet, Ill., and Hillside, Ill., all Chicago suburbs. The product most likely was purchased for use by restaurants or institutional facilities.

The No. 10 cans can be identified by the Venice Maid label and the code 9108/13P8.

"Anyone who bought canned Venice Maid Spaghetti and Meatballs with Sauce with this code should return it to the store where they bought it," said Donald L. Houston, administrator of USDA's Food Safety and Inspection Service. "Do not taste the food to determine if it is bad."

No illnesses have been reported from people eating the product.

"During routine testing, USDA scientists found clostridia organisms in the food," Houston said. "These organisms are relatively harmless, but in extreme cases could indicate the presence of organisms that cause botulism.

"USDA laboratory tests have not shown the presence of botulinum organisms, but we consider the Venice Maid recall a prudent, precautionary measure," he said.

No other products produced by the company are involved in the recall.

USDA is responsible for ensuring that all meat and poultry products sold in commerce are safe and wholesome.

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FREE FOOD FLOWS TO NEEDY IN 1983

WASHINGTON, Dec. 12—In 1983 over 780 million pounds of free food—mostly cheese and butter—worth more than a billion dollars were provided to the needy, according to Assistant Secretary of Agriculture Mary C. Jarratt.

"We gave away nearly four times more food this year than we did last year," Jarratt said today. "This feat is a tribute to the commitment of thousands of people who are working to get surplus foods into the hands of the needy."

In December 1981, President Reagan announced the distribution of surplus cheese to needy families. USDA distributed 203 million pounds of cheese and butter worth \$300 million to needy households in 1982, Jarratt said.

In 1983, USDA distributed more food as well as more types of food. Between January and December 1983, USDA estimates the total commodities distributed to households as follows:

Commodity	Pounds	1983 Distribution Dates
Processed cheese	392 million pounds	January - December
Cheddar cheese	92 million pounds	March - December
Butter	174 million pounds	January - December
Nonfat dry milk	45 million pounds	May - December
Rice	14 million pounds	April - September
Cornmeal	25 million pounds	April - December
Honey	25 million pounds	June - December
Flour	15 million pounds	June - September

Federal spending on food aid for the needy has grown from \$14 billion in 1980 to more than \$19 billion in 1983, Jarratt said. She said the mainstay of federal food programs is food stamps which cost \$12 billion this past year and served 22 million people.

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USDA DISTRIBUTES RULES FOR ECONOMIC EMERGENCY LOAN PROGRAM

WASHINGTON, Dec. 15—The U.S. Department of Agriculture's Farmers Home Administration is distributing new regulations to its field offices this week so the agency can resume making economic emergency loans by Dec. 22.

Charles W. Shuman, administrator of the Farmers Home Administration, said when the program begins again, the agency is authorized to lend a total of \$600 million in direct and guaranteed loans to farmers and ranchers suffering economic stress caused by the cost-price squeeze.

The loan program, first authorized in 1978, expired in September 1981 after more than \$6.6 billion had been loaned. It is being reopened for the 1984 fiscal year under order of the U.S. district court in Washington, D.C.

Economic emergency loans are authorized for farmers and ranchers who are directly and primarily engaged in, and expect to continue in, agricultural production; are unable to get sufficient credit from their regular lenders, and need credit to maintain viable farming operations. USDA can loan up to \$400,000 to any one borrower under the economic emergency program.

Among the permitted use of loan funds are financing 1984 crop production; purchasing essential livestock, feed and equipment; paying delinquent installments on farm and real estate debts if a lender is demanding payment.

The economic emergency loan program should not be confused with the disaster emergency loan program, which is limited to helping farmers continue their operations after suffering production or physical losses as a result of a natural disaster.

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USDA PREPARES CHANGES IN HOUSING REGULATIONS

WASHINGTON, Dec. 15—The U.S. Department of Agriculture's Farmers Home Administration is preparing new housing regulations to implement changes in the housing act passed by Congress and signed into law by President Ronald Reagan on Nov. 30.

Secretary of Agriculture John R. Block said, "Many of the changes will simplify housing assistance from the federal government by requiring the Farmers Home Administration, the Federal Housing Administration and the Veterans Administration to operate under laws and regulations that are applicable to all."

Charles W. Shuman, administrator of Farmers Home Administration, said many of the new provisions will make it possible for the agency to help more of the most needy persons in rural areas to obtain safe, decent and adequate housing.

Shuman said amendments passed last month give the Farmers Home Administration several new authorities to make housing assistance available to low income borrowers, including:

- single family mortgages of up to 38 years—five years longer than current repayment periods;
- loans for manufactured housing units, including the lots on which they are located;
- A new program of housing preservation grants to eligible organizations and units of government to rehabilitate single and multi-family housing.

Farmers Home Administration, the rural credit service of the U.S. Department of Agriculture, makes loans for single family housing, rural rental housing, farm labor housing, self-help housing, and building site loans. The agency is providing assistance through more than 1 million housing loans. The agency also makes farm loans, community facilities loans and business and industry loan guarantees.

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USDA ANNOUNCES 1984 FLUE-CURED TOBACCO QUOTA

WASHINGTON, Dec. 15—The 1984 flue-cured tobacco national marketing quota will be 805 million pounds, down 105 million pounds from the 1983 crop, according to Everett Rank, administrator of the U.S. Department of Agriculture's Agricultural Stabilization and Conservation Service.

Rank said undermarketings are estimated to exceed overmarketings by 30 million pounds making the 1984 effective quota about 835 million pounds, or 52 million pounds below the 1983 effective quota.

In the tobacco program, farmers who produce less than their quota of tobacco in one year (an undermarketing) are allowed to "overmarket" the amount of the shortfall the following year.

After undermarketings are taken into account, Rank said, USDA felt it necessary to reduce the 1984 quota so that a reduction in supplies would come about in an orderly manner.

Supplies of flue-cured tobacco—the quantity on hand at the start of the 1983 marketing year plus 1983 marketings—are about 696 million pounds in excess of the reserve supply level. The reserve supply level is the quantity considered adequate to meet estimated domestic use and export needs. Current legislation provides for reducing the quota when supplies exceed the reserve supply level.

The 1984 national acreage allotment is 404,726 acres, down from the 1983 allotment of 457,516 acres. Current law provides that a reserve acreage of not more than 3 percent of the national acreage allotment may be withheld for correction, adjustments and for establishing new farm allotments. However, no more than a third of such a reserve may be used for corrections and adjustments.

Estimated marketings from the 1984 quota are expected to be 835 million pounds, down 20 million pounds from the 1983 crop.

Flue-cured tobacco is grown in Alabama, Florida, Georgia, North Carolina, South Carolina and Virginia.

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